

KANOSH TOWN
FINANCIAL STATEMENTS
JUNE 30, 2006

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council
Kanosh Town
Kanosh, Utah 84637

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kanosh Town as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kanosh Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

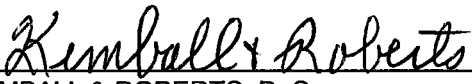
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kanosh Town Corporation as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2006, on our consideration of Kanosh Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 15 and 42 through 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and Town Board
Kanosh Town

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kanosh Town's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of Kanosh Town. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 22, 2006
Richfield, Utah

KANOSH TOWN MANAGEMENT'S DISCUSSION AND ANALYSIS For The Year Ended June 30, 2006

This discussion of Kanosh Town's financial performance provides an overview of the Town's financial activities for the year ending June 30, 2006. This report is in conjunction with the Town's financial statements.

The purpose of the Town is to provide general services to its residents which includes general government, public safety, highways and public improvements, parks and recreation.

Financial Highlights

- * The assets of the Town exceeded its liabilities as of the close of the most recent year by \$1,637,624 (net assets). Of this amount, \$540,943 (unrestricted net assets) which may be used to meet its ongoing obligations to citizens and creditors.
- * The government's total net assets decreased by \$20,290. The revenues were less than the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts in the general fund.
- * At the close of the current year, the Town's governmental funds reported ending fund balance of \$314,409, a decrease of \$32,815 in comparison with the prior year. Approximately 79 percent of this total amount, \$249,368, is available for spending at the government's discretion (unreserved fund balance).
- * At the end of the current year, unreserved fund balance for the general fund was \$68,630, or 26 percent of total general fund expenditures.
- * The Town's total debt decreased by \$8,275 during the current year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include general government, public safety, public health, highways and streets, and parks and recreation. The business-type activities of the Town are electric and water operations.

Refer to the table of contents for the location of the government-wide financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and enterprise funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Kanosh Town maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The Town adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with those budgets. Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary Funds

Kanosh Town maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric and water operations. Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Kanosh Town's, assets exceeded liabilities by \$1,637,624 at the close of the most recent fiscal year. By far the largest portion of the Town's net assets (62 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Town's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$540,943) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Kanosh Town's Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|----------------------------|---------|-----------------------------|-----------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and Other Assets | 330,630 | 400,508 | 350,855 | 402,318 | 681,485 | 802,826 |
| Capital Assets | 390,536 | 347,730 | 927,809 | 984,243 | 1,318,345 | 1,331,973 |
| Total Assets | 721,166 | 748,238 | 1,278,664 | 1,386,561 | 1,999,830 | 2,134,799 |
| Long-Term Liabilities | - | - | 290,906 | 334,689 | 290,906 | 334,689 |
| Other Liabilities | 16,221 | 29,497 | 55,079 | 37,402 | 71,300 | 66,899 |
| Total Liabilities | 16,221 | 29,497 | 345,985 | 372,091 | 362,206 | 401,588 |
| Net Assets: | | | | | | |
| Invested in Capital Assets | | | | | | |
| Net of Related Debt | 390,536 | 347,730 | 620,904 | 646,754 | 1,011,440 | 994,484 |
| Restricted | 65,041 | 17,000 | 20,200 | 20,200 | 85,241 | 37,200 |
| Unrestricted | 249,368 | 354,011 | 291,575 | 347,516 | 540,943 | 701,527 |
| Total Net Assets | 704,945 | 718,741 | 932,679 | 1,014,470 | 1,637,624 | 1,733,211 |

Governmental Activities

Governmental activities increased Kanosh Town's net assets by \$18,879.

Kanosh Town Changes in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|----------|-----------------------------|-----------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | 101,138 | 106,894 | 222,470 | 226,331 | 323,608 | 333,225 |
| Operating Grants | 33,026 | 80,506 | - | - | 33,026 | 80,506 |
| Capital Grants | 41,568 | - | - | 157,680 | 41,568 | 157,680 |
| General Revenues: | | | | | | |
| Property Taxes | 5,787 | 3,461 | - | - | 5,787 | 3,461 |
| Other Taxes | 43,023 | 35,333 | - | - | 43,023 | 35,333 |
| Unrestricted Investment Earnings | 16,054 | 7,831 | 10,823 | 3,690 | 26,877 | 11,521 |
| Total Revenues | 240,596 | 234,025 | 233,293 | 387,701 | 473,889 | 621,726 |
| Expenses: | | | | | | |
| General Government | 75,441 | 93,824 | - | - | 75,441 | 93,824 |
| Public Safety | 31,901 | 28,333 | - | - | 31,901 | 28,333 |
| Highways and Public Improvements | 23,760 | 19,018 | - | - | 23,760 | 19,018 |
| Culture and Recreation | 68,003 | 79,212 | - | - | 68,003 | 79,212 |
| Water, Garbage & Landfill | 22,612 | 46,236 | - | - | 22,612 | 46,236 |
| | - | - | 272,462 | 193,910 | 272,462 | 193,910 |
| Total Expenses | 221,717 | 266,623 | 272,462 | 193,910 | 494,179 | 460,533 |
| Increase in Net Assets Before Transfers | 18,879 | (32,598) | (39,169) | 193,791 | (20,290) | 161,193 |
| Transfers | - | - | - | (60,000) | - | (60,000) |
| Increase in Net Assets | 18,879 | (32,598) | (39,169) | 133,791 | (20,290) | 101,193 |
| Net Assets - Beginning | 686,066 | 751,339 | 971,848 | 880,679 | 1,657,914 | 1,632,018 |
| Net Total Net Assets | 704,945 | 718,741 | 932,679 | 1,014,470 | 1,637,624 | 1,733,211 |

* The City received operating grants of \$33,026. The material grant amount was; \$32,246 for Class C Roads. A capital grant from homeland security of \$29,600 was for the fire department for equipment.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-Type Activities

Business-type activities decreased the Town's net assets by \$39,169.

- * The total increase in the business-type activity costs were mainly due to the increase in the cost of purchased power.
- * The depreciation in the enterprise funds remained the same.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, the Town's governmental funds reported combined ending fund balances of \$314,409, a decrease of \$32,815 in comparison with the prior year. Approximately 79% percent of this amount (\$249,368) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to perpetual care in the amount of \$65,041.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 26 percent of total general fund expenditures, while total fund balance represents 26 percent of that same amount.

Proprietary Funds

The Town's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the electric and water funds at the end of the year were \$291,575. Other factors concerning the finances of these funds has already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The difference between the original and final budget was \$48,880. Changes were as follows:

- * General government increased by \$13,880.
- * Public safety increased by \$30,000.
- * Public health increased by \$5,000.
- * Highways and public improvements remained the same.
- * Parks and recreation remained the same.

Actual revenues were less than budgeted revenues by \$67,382 and actual expenditures were less than budgeted expenditures by \$30,077 resulting in a net decrease in fund balance of \$37,305.

Capital Asset and Debt Administration

Capital Assets

Kanosh Town's investment in capital assets for its governmental activities as of June 30, 2006, was \$390,536 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment and infrastructure, which includes roads.

The total increase in the Town's investment in capital assets for the current year was \$91,924. Major capital asset events during the current year included the following:

| | |
|------------------|----------|
| * Fire Equipment | \$31,924 |
| * Tractor | \$35,000 |
| * Sidewalks | \$25,000 |

Kanosh Town's Capital Assets (net of depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------|----------------------------|---------|-----------------------------|---------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | 43,168 | 43,168 | 15,688 | 15,688 | 58,856 | 58,856 |
| Infrastructure | 201,986 | 229,162 | - | - | 201,986 | 229,162 |
| Buildings | 17,050 | 19,350 | - | - | 17,050 | 19,350 |
| Improvements Other than Buildings | 15,300 | 17,100 | - | - | 15,300 | 17,100 |
| Water System | - | - | 680,230 | 719,200 | 680,230 | 719,200 |
| Electric System | - | - | 231,891 | 249,355 | 231,891 | 249,355 |
| Equipment | 113,032 | 38,950 | - | - | 113,032 | 38,950 |
| Total | 390,536 | 347,730 | 927,809 | 984,243 | 1,318,345 | 1,331,973 |

Additional information on the Town's capital assets can be found in the notes to the financial statements.

Long -Term Debt

At the end of the current year, the Town's had total bonded debt outstanding of \$306,905. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

Kanosh Town's Long-Term Debt

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------|----------------------------|------|-----------------------------|---------|---------|---------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenue Bonds | - | - | 306,905 | 334,689 | 306,905 | 334,689 |

State statutes limit the amount of general obligation debt a governmental entity may issue to 12 percent of its total fair market value of taxable property in the Town. The Town has no general obligation debt.

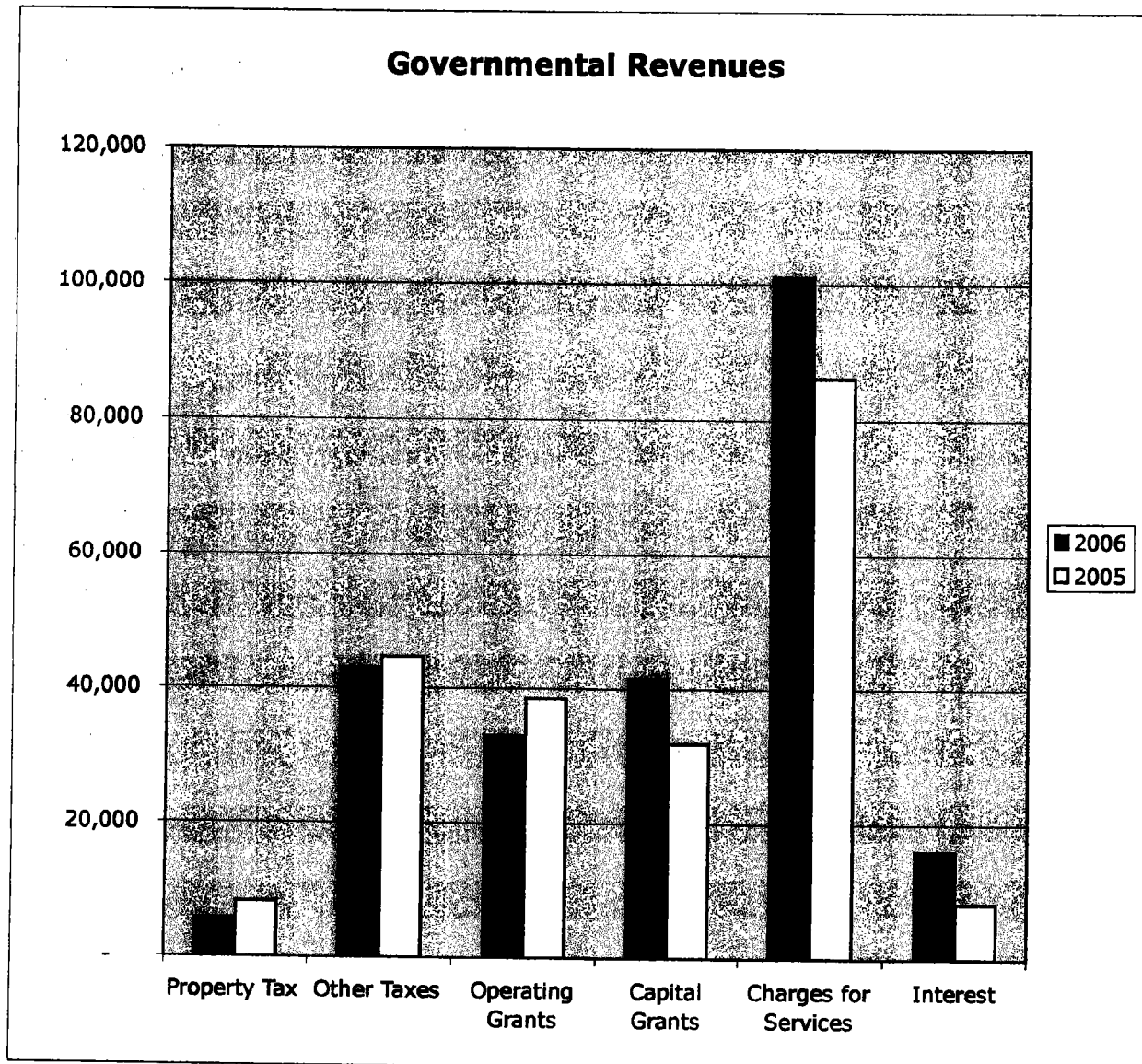
Additional information on Kanosh Town's long-term debt can be found in the notes of the financial statements.

Request for Information

This financial report is designed to provide a general overview of Kanosh Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kanosh Town Clerk, P.O. Box 96, Kanosh, Utah, 84637-0096.

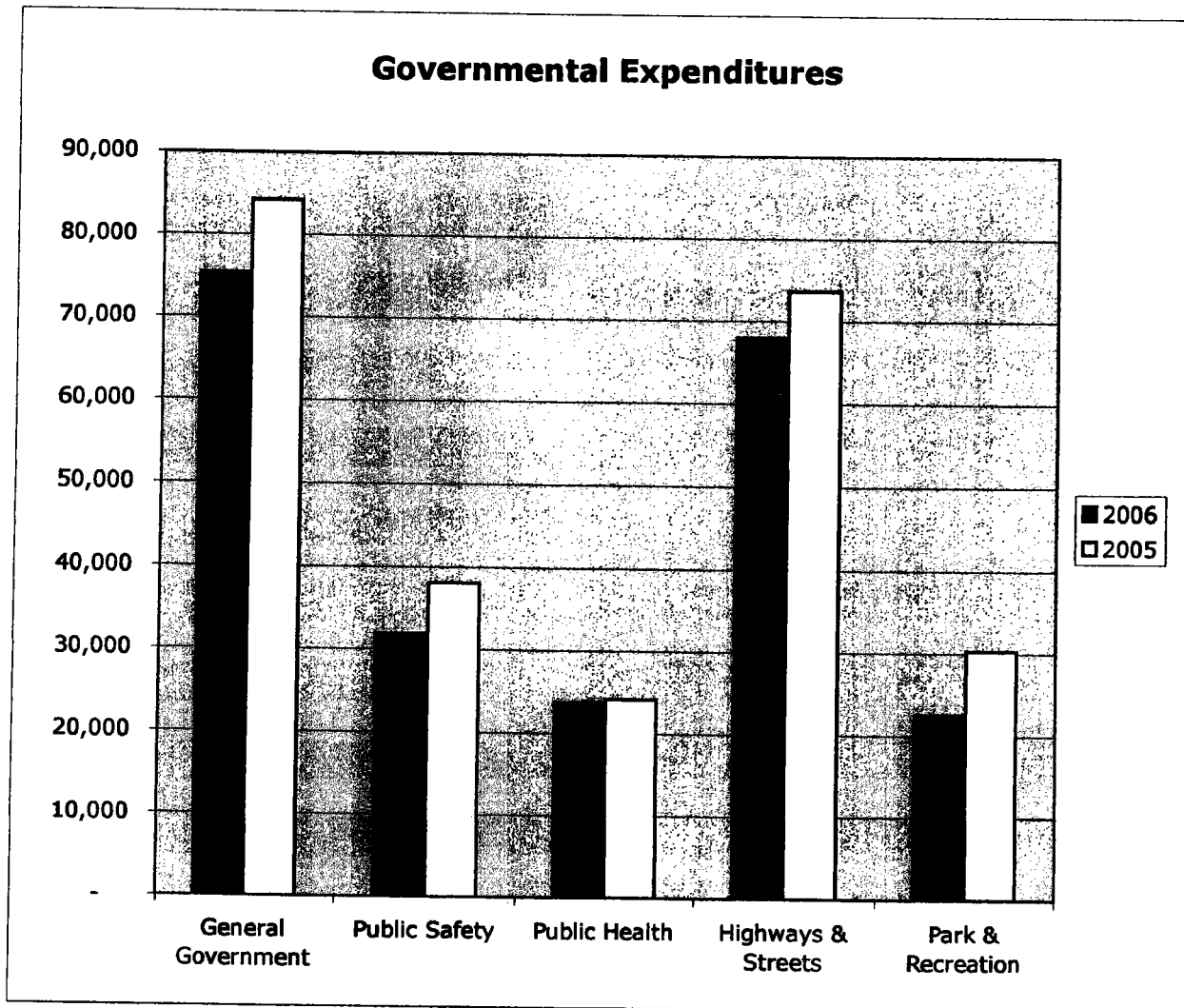
**Kanosh Town
Governmental Revenues
For The Fiscal Years Ending June 30, 2006 and 2005**

| | 2006 | 2005 |
|-----------------------|----------------|----------------|
| Property Tax | 5,787 | 8,273 |
| Other Taxes | 43,023 | 44,697 |
| Operating Grants | 33,026 | 38,506 |
| Capital Grants | 41,568 | 31,910 |
| Charges for Services | 101,138 | 86,161 |
| Interest | 16,054 | 8,283 |
| Total Revenues | 240,596 | 217,830 |



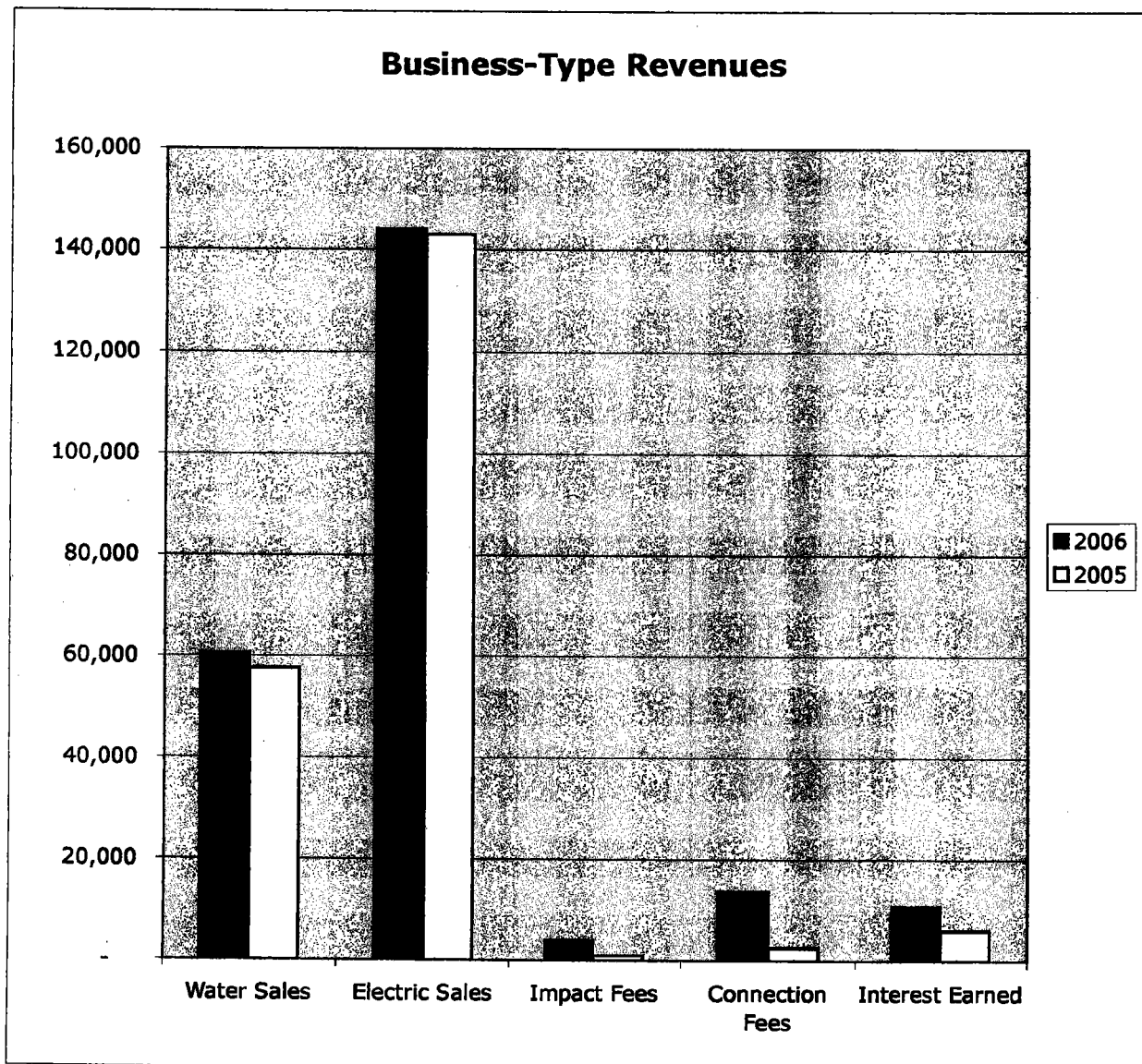
**Kanosh Town
Governmental Expenditures
For The Fiscal Years Ending June 30, 2006 and 2005**

| | 2006 | 2005 |
|---------------------------|----------------|----------------|
| General Government | 75,441 | 84,186 |
| Public Safety | 31,901 | 38,170 |
| Public Health | 23,760 | 24,138 |
| Highways & Streets | 68,003 | 73,686 |
| Park & Recreation | 22,612 | 30,325 |
| Total Expenditures | 221,717 | 250,505 |



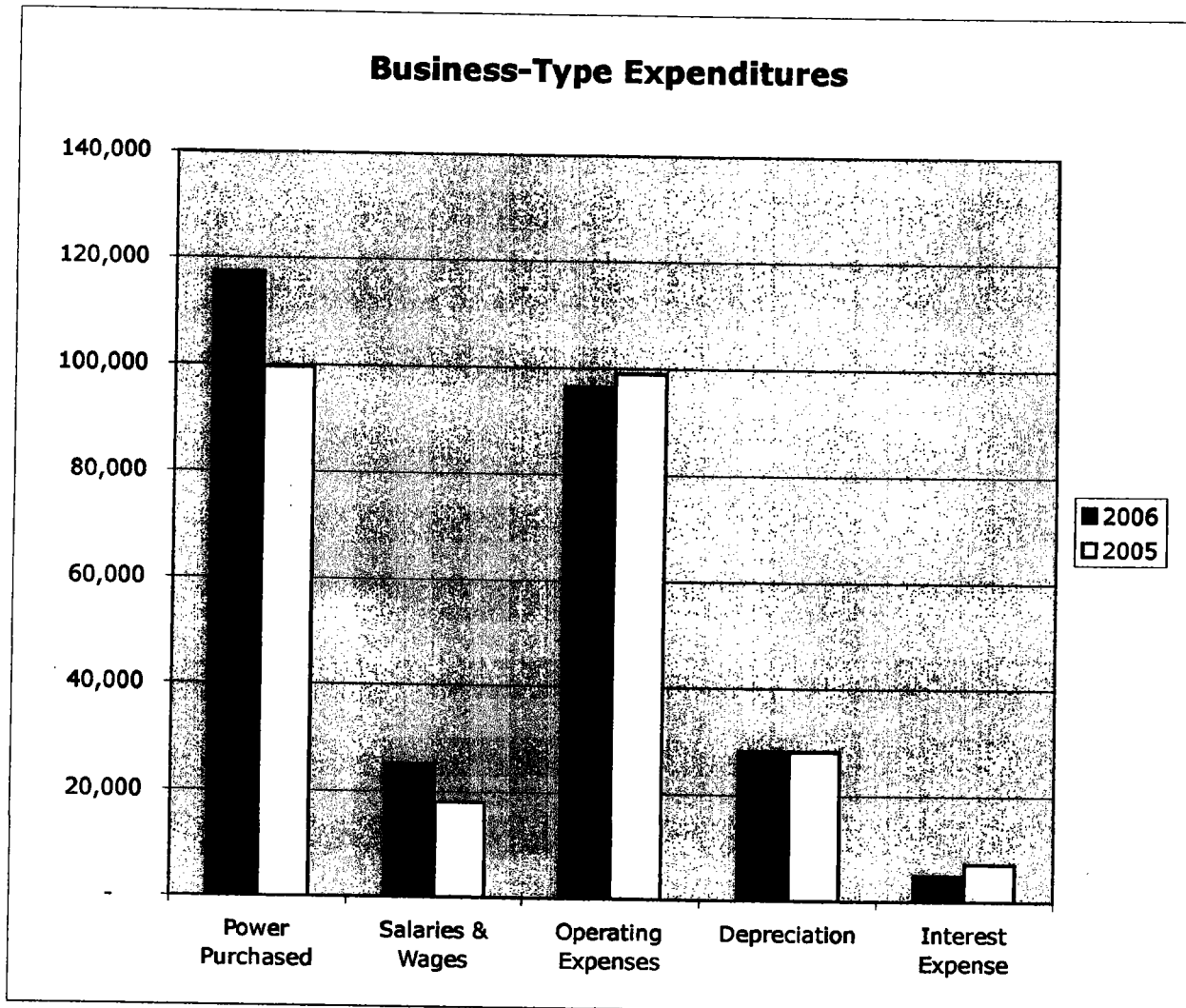
**Kanosh Town
Business-Type Revenues
For The Fiscal Years Ending June 30, 2006 and 2005**

| | 2006 | 2005 |
|-----------------------|----------------|----------------|
| Water Sales | 60,619 | 57,626 |
| Electric Sales | 144,116 | 143,099 |
| Impact Fees | 4,000 | 1,000 |
| Connection Fees | 13,735 | 2,650 |
| Interest Earned | 10,823 | 6,065 |
| Total Revenues | 233,293 | 210,440 |



Kanosh Town
Business Type Expenditures
For The Fiscal Years Ending June 30, 2006 and 2005

| | 2006 | 2005 |
|---------------------------|----------------|----------------|
| Power Purchased | 117,440 | 99,612 |
| Salaries & Wages | 25,295 | 18,116 |
| Operating Expenses | 96,483 | 99,014 |
| Depreciation | 28,217 | 28,217 |
| Interest Expense | 5,027 | 7,103 |
| Total Expenditures | 272,462 | 252,062 |



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is used to assist in formatting, for easier reading)

BASIC FINANCIAL STATEMENTS

**KANOSH TOWN
STATEMENT OF NET ASSETS**

June 30, 2006

| | Primary Government | | |
|---|----------------------------|-----------------------------|-------------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | 320,962 | 298,331 | 619,293 |
| Accounts Receivable (Net) | 2,859 | 32,324 | 35,183 |
| Due From Other Government Units | 6,809 | - | 6,809 |
| Total Current Assets | <u>330,630</u> | <u>330,655</u> | <u>661,285</u> |
| Noncurrent Assets: | | | |
| Restricted Cash and Cash Equivalents | - | 20,200 | 20,200 |
| Capital Assets (Net of Accumulated Depreciation): | | | |
| Land | 43,168 | 15,688 | 58,856 |
| Buildings | 17,050 | - | 17,050 |
| Improvements Other Than Buildings | 15,300 | - | 15,300 |
| Equipment | 113,032 | - | 113,032 |
| Water System | - | 680,230 | 680,230 |
| Electric System | - | 231,891 | 231,891 |
| Infrastructure | 201,986 | - | 201,986 |
| Total Noncurrent Assets | <u>390,536</u> | <u>948,009</u> | <u>1,338,545</u> |
| TOTAL ASSETS | <u>721,166</u> | <u>1,278,664</u> | <u>1,999,830</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts Payable | 16,221 | 30,122 | 46,343 |
| Accrued Liabilities | - | 1,132 | 1,132 |
| Deposits Payable | - | 5,276 | 5,276 |
| Bond Interest Payable | - | 2,550 | 2,550 |
| Revenue Bonds Payable - Due Within One Year | - | 15,999 | 15,999 |
| Total Current Liabilities | <u>16,221</u> | <u>55,079</u> | <u>71,300</u> |
| Noncurrent Liabilities: | | | |
| Revenue Bonds Payable - Due More Than One Year | - | 290,906 | 290,906 |
| TOTAL LIABILITIES | <u>16,221</u> | <u>345,985</u> | <u>362,206</u> |
| NET ASSETS | | | |
| Investment in Capital Assets, Net of Debt | 390,536 | 620,904 | 1,011,440 |
| Restricted For: | | | |
| Bond Retirement | - | 20,200 | 20,200 |
| Perpetual Care | 65,041 | - | 65,041 |
| Unrestricted | 249,368 | 291,575 | 540,943 |
| TOTAL NET ASSETS | <u>704,945</u> | <u>932,679</u> | <u>1,637,624</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>721,166</u> | <u>1,278,664</u> | <u>1,999,830</u> |

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2006

| Function/Programs | Net (Expense) Revenues and Changes in Net Assets | | | | | | |
|--------------------------------------|--|----------------------|---------------------------------|-------------------------------|-------------------------|--------------------------|-----------|
| | Expenses | Program Revenues | | Changes in Net Assets | | | |
| | | Charges for Services | Operating Grants/ Contributions | Capital Grants/ Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary Government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General Government | 75,441 | 61,566 | - | - | (13,875) | - | (13,875) |
| Public Safety | 31,901 | 12,822 | 780 | 41,568 | 23,269 | - | 23,269 |
| Public Health | 23,760 | 18,812 | - | - | (4,948) | - | (4,948) |
| Streets and Public Improvements | 68,003 | - | 32,246 | - | (35,757) | - | (35,757) |
| Park and Recreation | 22,612 | 7,938 | - | - | (14,674) | - | (14,674) |
| Total Governmental Activities | 221,717 | 101,138 | 33,026 | 41,568 | (45,985) | - | (45,985) |
| Business-Type Activities: | | | | | | | |
| Water Fund | 51,757 | 60,619 | - | - | - | 8,862 | 8,862 |
| Electric Fund | 220,705 | 144,116 | - | - | - | (76,589) | (76,589) |
| Total Business-Type Activities | 272,462 | 204,735 | - | - | - | (67,727) | (67,727) |
| Total Primary Government | 494,179 | 305,873 | 33,026 | 41,568 | (45,985) | (67,727) | (113,712) |
| General Revenues: | | | | | | | |
| Property Taxes | | | | | 5,787 | - | 5,787 |
| Sales Taxes | | | | | 43,023 | - | 43,023 |
| Impact Fees | | | | | - | 4,000 | 4,000 |
| Connection Fees | | | | | - | 13,735 | 13,735 |
| Unrestricted Investment Earnings | | | | | 16,054 | 10,823 | 26,877 |
| Total General Revenues and Transfers | | | | | 64,864 | 28,558 | 93,422 |
| Change in Net Assets | | | | | 18,879 | (39,169) | (20,290) |
| Net Assets - Beginning | | | | | 686,066 | 971,848 | 1,657,914 |
| Net Assets - Ending | | | | | 704,945 | 932,679 | 1,637,624 |

The notes to the financial statements are an integral part of this statement.

**KANOSH TOWN
BALANCE SHEET
GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2006

| | General Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|-----------------|-----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | 75,183 | 174,978 | 70,801 | 320,962 |
| Accounts Receivable (Net) | 2,859 | - | - | 2,859 |
| Due From Other Government Units | 6,809 | - | - | 6,809 |
| TOTAL ASSETS | <u>84,851</u> | <u>174,978</u> | <u>70,801</u> | <u>330,630</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | 16,221 | - | - | 16,221 |
| Total Liabilities | <u>16,221</u> | <u>-</u> | <u>-</u> | <u>16,221</u> |
| Fund Balances: | | | | |
| Reserved For: | | | | |
| Perpetual Care | - | - | 65,041 | 65,041 |
| Unreserved, Reported In: | | | | |
| General Fund | 68,630 | - | - | 68,630 |
| Special Revenue Funds | - | - | 5,760 | 5,760 |
| Capital Project Fund | - | 174,978 | - | 174,978 |
| Total Fund Balance | <u>68,630</u> | <u>174,978</u> | <u>70,801</u> | <u>314,409</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>84,851</u> | <u>174,978</u> | <u>70,801</u> | <u>330,630</u> |

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS

June 30, 2006

| | |
|---|---------|
| Total Fund Balances - Governmental Fund Types | 314,409 |
|---|---------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

| | | |
|-----------------------------------|----------------|--|
| Land | 43,168 | |
| Buildings | 17,050 | |
| Improvements Other Than Buildings | 15,300 | |
| Equipment | 78,032 | |
| Infrastructure | <u>201,986</u> | |

| | | |
|-------|--|----------------|
| Total | | <u>355,536</u> |
|-------|--|----------------|

| | |
|-------------------------------------|-----------------------|
| Net Assets of Government Activities | <u><u>669,945</u></u> |
|-------------------------------------|-----------------------|

KANOSH TOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2006

| | General Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|-----------------------------------|----------------------|-----------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | 48,810 | | - | 48,810 |
| Licenses and Permits | 4,212 | - | - | 4,212 |
| Intergovernmental Revenue | 74,594 | - | 10,575 | 85,169 |
| Charges for Services | 73,087 | - | - | 73,087 |
| Interest | 16,054 | - | - | 16,054 |
| Miscellaneous Revenues | 7,341 | - | 5,923 | 13,264 |
| Total Revenues | <u>224,098</u> | <u>-</u> | <u>16,498</u> | <u>240,596</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 75,191 | - | - | 75,191 |
| Public Safety | 14,606 | - | 12,008 | 26,614 |
| Public Health | 23,760 | - | - | 23,760 |
| Streets and Public Improvements | 35,220 | - | - | 35,220 |
| Parks and Recreation | 20,702 | - | - | 20,702 |
| Capital Outlay | 91,924 | - | - | 91,924 |
| Total Expenditures | <u>261,403</u> | <u>-</u> | <u>12,008</u> | <u>273,411</u> |
| Net Change In Fund Balance | (37,305) | - | 4,490 | (32,815) |
| Fund Balance - Beginning | <u>105,935</u> | <u>174,978</u> | <u>66,311</u> | <u>347,224</u> |
| Fund Balance - Ending | <u><u>68,630</u></u> | <u><u>174,978</u></u> | <u><u>70,801</u></u> | <u><u>314,409</u></u> |

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities
are different because:

| | |
|---|----------|
| Net Changes in Fund Balances - Total Governmental Funds | (32,815) |
|---|----------|

Governmental funds report capital outlays as expenditures. However, in
the statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation in the current period:

| | | |
|----------------------|-----------------|--|
| Capital Outlay | 56,924 | |
| Depreciation Expense | <u>(40,230)</u> | |

| | | |
|-------|--|---------------|
| Total | | <u>16,694</u> |
|-------|--|---------------|

| | |
|--|------------------------|
| Changes In Net Assets of Governmental Activities | <u><u>(16,121)</u></u> |
|--|------------------------|

**KANOSH TOWN
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2006

| | Business-Type Activity Enterprise Fund | | |
|---|---|------------------|-----------|
| | Water Fund | Electric Fund | Totals |
| ASSETS: | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | 203,287 | 95,044 | 298,331 |
| Accounts Receivable | 8,434 | 23,890 | 32,324 |
| Total Current Assets | 211,721 | 118,934 | 330,655 |
| Noncurrent Assets: | | | |
| Investments - Restricted: | | | |
| Bond Retirement | 20,200 | - | 20,200 |
| Capital Assets: (Net of Accum. Depr.) | | | |
| Land | 15,688 | - | 15,688 |
| Improvements Other Than Buildings | 680,230 | 231,891 | 912,121 |
| Total Noncurrent Assets | 716,118 | 231,891 | 948,009 |
| TOTAL ASSETS | 927,839 | 350,825 | 1,278,664 |
| LIABILITIES: | | | |
| Current Liabilities: | | | |
| Accounts Payable | 774 | 29,348 | 30,122 |
| Accrued Liabilities | - | 1,132 | 1,132 |
| Customer Deposits | 900 | 4,376 | 5,276 |
| Bond Interest Payable | 2,550 | - | 2,550 |
| Bonds Payable - Current Portion | 15,999 | - | 15,999 |
| Total Current Liabilities | 20,223 | 34,856 | 55,079 |
| Noncurrent Liabilities: | | | |
| Bonds Payable - Long-Term Portion | 290,906 | - | 290,906 |
| TOTAL LIABILITIES | 311,129 | 34,856 | 345,985 |
| NET ASSETS: | | | |
| Invested in Capital Assets, Net of Related Debt | 389,013 | 231,891 | 620,904 |
| Restricted for Bonded Retirement | 20,200 | - | 20,200 |
| Unrestricted | 207,497 | 84,078 | 291,575 |
| TOTAL NET ASSETS | 616,710 | 315,969 | 932,679 |
| TOTAL LIABILITIES AND NET ASSETS | 927,839 | 350,825 | 1,278,664 |

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

June 30, 2006

| | Business-Type Activity Enterprise Fund | | |
|--|---|-----------------------|-----------------------|
| | Water Fund | Electric Fund | Totals |
| Operating Revenues: | | | |
| Charges for Sales and Services: | | | |
| Water | 60,619 | - | 60,619 |
| Electricity | - | 144,116 | 144,116 |
| Total Operating Revenues | <u>60,619</u> | <u>144,116</u> | <u>204,735</u> |
| Operating Expenses: | | | |
| Salaries and Wages | 8,716 | 16,579 | 25,295 |
| Maintenance and Operations | 18,529 | 27,954 | 46,483 |
| Administrative Fee | - | 50,000 | 50,000 |
| Purchase of Power | - | 117,440 | 117,440 |
| Depreciation | 19,485 | 8,732 | 28,217 |
| Total Operating Expenses | <u>46,730</u> | <u>220,705</u> | <u>267,435</u> |
| Operating Income | <u>13,889</u> | <u>(76,589)</u> | <u>(62,700)</u> |
| Nonoperating Revenues (Expenses): | | | |
| Investment Earnings | 5,616 | 5,207 | 10,823 |
| Connection Fees | 3,685 | 10,050 | 13,735 |
| Impact Fees | 4,000 | - | 4,000 |
| Interest Expense | (5,027) | - | (5,027) |
| Total Nonoperating Revenues (Expenses) | <u>8,274</u> | <u>15,257</u> | <u>23,531</u> |
| Change in Net Assets | 22,163 | (61,332) | (39,169) |
| Total Net Assets - Beginning | <u>594,547</u> | <u>377,301</u> | <u>971,848</u> |
| Total Net Assets - Ending | <u><u>616,710</u></u> | <u><u>315,969</u></u> | <u><u>932,679</u></u> |

The notes to the financial statements are an integral part of this statement.

**KANOSH TOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

June 30, 2006

| | Business-Type Activity - Enterprise Fund | | |
|--|--|------------------|-----------|
| | Water Fund | Electric Fund | Totals |
| Cash Flows From Operating Activities: | | | |
| Receipts From Customers | 59,567 | 142,899 | 202,466 |
| Payments to Suppliers | (17,630) | (183,632) | (201,262) |
| Payments to Employees | (8,716) | (16,579) | (25,295) |
| Net Cash Provided by Operating Activities | 33,221 | (57,312) | (24,091) |
| Cash Flows From Capital and Related Financing Activities: | | | |
| Principal Paid on Capital Debt | (19,175) | - | (19,175) |
| Interest Paid on Capital Debt | (5,177) | - | (5,177) |
| Bond Proceeds | 10,900 | - | 10,900 |
| Connection Fees | 3,685 | 10,050 | 13,735 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (9,767) | 10,050 | 283 |
| Cash Flows from Investing Activities: | | | |
| Interest Received | 5,616 | 5,208 | 10,824 |
| Impact Fees | 4,000 | - | 4,000 |
| Net Cash Provided (Used) by Investing Activities | 9,616 | 5,208 | 14,824 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 33,070 | (42,054) | (8,984) |
| Cash and Cash Equivalents - Beginning | 190,417 | 137,098 | 327,515 |
| Cash and Cash Equivalents - Ending | 223,487 | 95,044 | 318,531 |
| Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities: | | | |
| Operating Income | 13,889 | (76,589) | (62,700) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities: | | | |
| Depreciation | 19,485 | 8,732 | 28,217 |
| Increase (Decrease) in Operating Assets: | | | |
| Accounts Receivable | (1,052) | (1,217) | (2,269) |
| Accounts Payable | 774 | 11,136 | 11,910 |
| Deposits Payable | 125 | 626 | 751 |
| Total Adjustments | 19,332 | 19,277 | 38,609 |
| Net Cash Provided (Used) by Operating Activities | 33,221 | (57,312) | (24,091) |

The notes to the financial statements are an integral part of this statement.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kanosh Town conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

The accompanying basic financial statements present the financial position of various fund types and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2006.

The following is a summary of the more significant policies:

A. Reporting Entity

Kanosh Town is a municipal corporation in Millard County, Utah. It is governed by an elected mayor and a four member board. As required by generally accepted accounting principles, these financial statements are of the primary government, Kanosh Town, the reporting entity. The Town has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Kanosh Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

The Government also reports the following Other Governmental Funds:

Fire Department and Perpetual Care. These funds account for revenue sources that are restricted to expenditures for specific purposes.

The Perpetual Care Permanent Fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the cemetery.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Government reports the following Proprietary Funds:

The Utility Funds accounts for the activities of the Town water and electric operations. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and electric funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

| | |
|-----------------|----------|
| Water System | 50 Years |
| Electric System | 50 Years |

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting:

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and Town Board on or before June 22 for the following Fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the Town Board at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the Town's budgetary control (the level at which the Town's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Some Towns find themselves with a deficit fund balance in one or more of their funds. The State Auditor has taken the position that a deficit, created by expenditures being made in excess of those budgeted, is an illegally created debit in violation of the Utah Constitution, Section XIV(3). As such, the total illegally created deficit should be budgeted to be made up in the following fiscal year. Deficits arising from emergencies are not illegal and may be retired over 5 years. Maximum in the general funds may not exceed 75% of the total estimated revenue of the general fund.

Once adopted, the budget may be amended by the Town council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

F. Property Taxes

Property taxes are assessed and collected for the Town by Millard County and remitted to the Town shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

G. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS

Kanosh Town maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents".

Deposits:

At year end, the carrying amount of the Town's deposits was \$9,339 and the bank balance was \$17,659. All of the bank balance was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council.

Cash and investments as of June 30, 2006, consist of the following:

| | <u>Fair Value</u> |
|----------------------------|-----------------------|
| Demand Deposits | 9,339 |
| Investments - PTIF | <u>630,154</u> |
| Total Cash and Investments | <u><u>639,493</u></u> |

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

| | |
|---|-----------------------|
| Governmental Activities - Unrestricted | 320,962 |
| Business-Type Activities - Unrestricted | 298,331 |
| Business-Type Activities - Restricted | <u>20,200</u> |
| Total Cash and Cash Equivalents | <u><u>639,493</u></u> |

The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that Town funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations.

PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits and investments for local government are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk:

Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$0 of the local government's bank balances of \$17,659 were uninsured and uncollateralized.

Credit Risk:

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended June 30, 2006, the local governments has investments of \$630,154 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investments mainly in the PTIF and by adhering to the Money Management Act. The act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of Credit Risk:

Concentration of credit risk the risk of loss attributed to the magnitude of a government's investments in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

NOTE 3 - BOND RESERVES

The Water Revenue Bonds require the following reserves:

| | |
|--|----------------------|
| 1980 Series A - \$57 per month / maximum of \$6,780 | 6,780 |
| 1985 Series B - \$37 per month / maximum of \$3,750 | 3,750 |
| 1985 Series B - \$32 per month / maximum of \$3,200 | 3,200 |
| 2003 Series - \$135.25 per month / maximum of \$17,000 | <u>6,470</u> |
| Total | <u><u>20,200</u></u> |

The balance of reserves at year end was \$20,200.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | 30,000 | - | - | 30,000 |
| Land Related to Infrastructure | <u>13,168</u> | <u>-</u> | <u>-</u> | <u>13,168</u> |
| Total Capital Assets Not Being Depreciated | <u>43,168</u> | <u>-</u> | <u>-</u> | <u>43,168</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 46,000 | - | - | 46,000 |
| Improvements Other Than Bldgs | 18,000 | - | - | 18,000 |
| Equipment | 96,200 | 66,924 | - | 163,124 |
| Infrastructure | <u>509,250</u> | <u>25,000</u> | <u>-</u> | <u>534,250</u> |
| Total Capital Assets Being Depreciated | <u>669,450</u> | <u>91,924</u> | <u>-</u> | <u>761,374</u> |
| Less Accumulated Depreciation For: | | | | |
| Buildings | 27,800 | 1,150 | - | 28,950 |
| Improvements Other Than Bldgs | 1,800 | 900 | - | 2,700 |
| Equipment | 38,625 | 11,467 | - | 50,092 |
| Infrastructure | <u>305,551</u> | <u>26,713</u> | <u>-</u> | <u>332,264</u> |
| Total Accumulated Depreciation | <u>373,776</u> | <u>40,230</u> | <u>-</u> | <u>414,006</u> |
| Total Capital Assets Being Depreciated (Net) | <u>295,674</u> | <u>51,694</u> | <u>-</u> | <u>347,368</u> |
| Governmental Activities Capital Assets, Net | <u>338,842</u> | <u>51,694</u> | <u>-</u> | <u>390,536</u> |

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS (CONTINUED)

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Business Type Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | 15,688 | - | - | 15,688 |
| Total Capital Assets Not Being Depreciated | 15,688 | - | - | 15,688 |
| Capital Assets Being Depreciated: | | | | |
| Water System | 974,245 | - | - | 974,245 |
| Electric System | 436,600 | - | - | 436,600 |
| Total Capital Assets Being Depreciated | 1,410,845 | - | - | 1,410,845 |
| Less Accumulated Depreciation For: | | | | |
| Water System | 274,530 | 19,485 | - | 294,015 |
| Electric System | 195,977 | 8,732 | - | 204,709 |
| Total Accumulated Depreciation | 470,507 | 28,217 | - | 498,724 |
| Total Capital Assets Being Depreciated (Net) | 940,338 | (28,217) | - | 912,121 |
| Business Type Activities Capital Assets, Net | 956,026 | (28,217) | - | 927,809 |
| Total Capital Assets | <u>1,294,868</u> | <u>23,477</u> | <u>-</u> | <u>1,318,345</u> |

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Primary Government as follows:

| | Governmental Activities | Business Type Activities | Total |
|----------------------------------|----------------------------|-----------------------------|---------------|
| General Government | 250 | - | 250 |
| Public Safety | 5,287 | - | 5,287 |
| Public Health | - | 28,217 | 28,217 |
| Highways and Public Improvements | 32,783 | - | 32,783 |
| Parks and Recreation | 1,910 | - | 1,910 |
| Total Depreciation Expense | <u>40,230</u> | <u>28,217</u> | <u>68,447</u> |

NOTE 5 - LONG-TERM DEBT

1980 Water Revenue Bonds - Series A:

During 1980 the Town issued water revenue bonds in the amount of \$115,800 with interest at 5%.

The following is a schedule of debt service to maturity:

| | Principal | Interest | Total |
|-----------|---------------|---------------|---------------|
| 2006-2007 | 3,999 | 2,781 | 6,780 |
| 2007-2008 | 4,199 | 2,581 | 6,780 |
| 2008-2009 | 4,409 | 2,371 | 6,780 |
| 2009-2010 | 4,629 | 2,151 | 6,780 |
| 2010-2011 | 4,861 | 1,919 | 6,780 |
| 2012-2016 | 28,202 | 5,698 | 33,900 |
| 2017-2021 | <u>8,606</u> | <u>266</u> | <u>8,872</u> |
| Total | <u>58,905</u> | <u>17,767</u> | <u>76,672</u> |

1985 Water Revenue Bonds - Series B:

During 1985 the Town issued water revenue bonds in the amount of \$75,000 with interest at 0%. These bonds were paid in full during the year.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Water Revenue Bonds - Series 2003:

The Town obtained financing for the purpose of constructing a new water tank and culinary water lines during 2004. The funding for the project was as follows:

| | |
|---------------------------|--------------------------|
| Drinking Water Board Loan | 340,000.00 |
| CDBG Grant | 90,000.00 |
| Local Share (Kanosh) | <u>30,000.00</u> |
| Total | <u><u>460,000.00</u></u> |

The Drinking Water board will forgive 20% or \$65,285 of the \$326,385 loan. The balance of the loan, \$261,100, requires yearly payments including interest at 1.44%.

The following is a schedule of debt service to maturity:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|-----------------------|----------------------|-----------------------|
| 2006-2007 | 12,000 | 3,571 | 15,571 |
| 2007-2008 | 13,000 | 3,398 | 16,398 |
| 2008-2009 | 13,000 | 3,226 | 16,226 |
| 2009-2010 | 13,000 | 3,038 | 16,038 |
| 2010-2011 | 13,000 | 2,851 | 15,851 |
| 2012-2016 | 68,000 | 11,434 | 79,434 |
| 2017-2021 | 73,000 | 6,466 | 79,466 |
| 2022-2026 | <u>43,000</u> | <u>1,510</u> | <u>44,510</u> |
| Total | <u><u>248,000</u></u> | <u><u>35,494</u></u> | <u><u>283,494</u></u> |

The bond requires a bond reserve payment of \$135.25 per month for 120 months to a maximum of \$17,000.00. In addition the Town is required to maintain a capital replacement fund equal to 5% of the operating budget including debt service payments.

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The following is a schedule of changes in bonds payable at June 30, 2006:

| Bond Issue: | Date of Issue | Interest Rate | Total Issued | Outstanding June 30, 2005 | Current Year Changes | | Outstanding June 30, 2006 |
|---------------------------------|---------------|---------------|----------------|---------------------------|----------------------|---------------|---------------------------|
| | | | | | Issued | Matured | |
| Water Revenue Bonds Series A | 1980 | 5% | 115,800 | 62,330 | - | 3,425 | 58,905 |
| Water Revenue Bonds Series B | 1985 | 0% | 75,000 | 3,750 | - | 3,750 | - |
| Water Revenue Bonds Series 2003 | 2003 | 1.44% | 272,000 | 249,100 | 10,900 | 12,000 | 248,000 |
| Total | | | <u>462,800</u> | <u>315,180</u> | <u>10,900</u> | <u>19,175</u> | <u>306,905</u> |

The following is a five year maturity of long-term debt:

| | Principal | Interest | Total |
|-----------|----------------|---------------|----------------|
| 2006-2007 | 15,999 | 6,352 | 22,351 |
| 2007-2008 | 17,199 | 5,979 | 23,178 |
| 2008-2009 | 17,409 | 5,597 | 23,006 |
| 2009-2010 | 17,629 | 5,189 | 22,818 |
| 2010-2011 | 17,861 | 4,770 | 22,631 |
| 2012-2016 | 96,202 | 17,132 | 113,334 |
| 2017-2021 | 81,606 | 6,732 | 88,338 |
| 2022-2026 | 43,000 | 1,510 | 44,510 |
| | <u>306,905</u> | <u>53,261</u> | <u>360,166</u> |

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 6 - CLASS "C" ROADS

The following is a schedule of receipts and expenditures in Class "C" Roads:

| | | |
|-----------------------------|--------------|-----------------|
| Balance - Beginning of Year | | 4,000 |
| Receipts: | | |
| State Allotments | 32,246 | |
| Interest | <u>1,440</u> | |
| Total Receipts | | 33,686 |
| Expenditures | | <u>(37,686)</u> |
| Balance - End of Year | | <u><u>-</u></u> |

NOTE 7 - SPECIAL REVENUE FUND

During 1987 Kanosh Town joined the Millard County Fire District which is a Special Service District. The Special Service District levies and collects taxes for the members of the Fire District. These monies are then remitted, based upon an agreed formula, to the towns involved in the District to be used for fire control.

The following is a statement of changes in the fire department of the Special Revenue Fund:

| | | |
|----------------------------------|--------------|---------------------|
| Fund Balance - Beginning of Year | | 4,933 |
| Revenues: | | |
| Special Service District | 10,575 | |
| Other | 2,247 | |
| Interest | <u>13</u> | |
| Total Revenues | | 12,835 |
| Expenditures | | |
| Materials and Supplies | (6,850) | |
| Gas and Oil | (3,271) | |
| Utilities | (1,312) | |
| Services | <u>(575)</u> | |
| Total Expenditures | | <u>(12,008)</u> |
| Fund Balance - End of Year | | <u><u>5,760</u></u> |

KANOSH TOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 8 - PERMANENT FUND - PERPETUAL CARE

The following is a statement of changes in the Cemetery Perpetual Care Fund:

| | |
|----------------------------------|---------------|
| Fund Balance - Beginning of Year | 61,378 |
| Revenues | 3,663 |
| Expenditures | <u>-</u> |
| Fund Balance - End of Year | <u>65,041</u> |

NOTE 9 - IMPACT FEES

During the year the Town approved implementing a water fee table setting fees Kanosh can charge for impact fees for new water connections. The fee for 2005-2006 was \$4,000.00. The Town had a Culinary Water System Analysis and Impact Fee Analysis prepared prior to adopting the ordinance. All of the impact fees have been spent on approved expenditures.

NOTE 10 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and injuries and disasters. The Town is insured through the Utah Local Government Trust for general liability coverage. The limits of coverage is \$2,000,000 with \$0 deductible for each occurrence for both comprehensive general liability and automobile liability. Uninsured motorist has a \$50,000 limit per each accident.

The Town is insured for property and equipment loss through the Utah Local Government Trust. This coverage is for all buildings and equipment owned by the Town. The coverage is for replacement cost with a \$0 deductible. The Town also has health and accident coverage for employees through the Trust.

Claims have not exceeded coverage in any of the last three calendar years.

(This page contains no information and
is used to assist in formatting, for easier reading)

**REQUIRED SUPPLEMENTARY
INFORMATION
"UNAUDITED"**

**KANOSH TOWN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) (See Note A) | Variance With Final Budget Positive (Negative) |
|--------------------------------------|------------------|---------|---|---|
| | Original | Final | | |
| Budgetary Fund Balance, July 1, 2005 | 105,935 | 105,935 | 105,935 | - |
| Resources (Inflows): | | | | |
| Taxes: | | | | |
| General Property Taxes | 5,950 | 5,950 | 4,025 | (1,925) |
| Delinquent Prior Years Taxes | 250 | 250 | 170 | (80) |
| General Sales and Use Taxes | 39,110 | 39,110 | 43,023 | 3,913 |
| Fee-In-Lieu | 1,200 | 1,200 | 1,592 | 392 |
| Total Taxes | 46,510 | 46,510 | 48,810 | 2,300 |
| Licenses and Permits: | | | | |
| Animal Licenses | 600 | 600 | 957 | 357 |
| Business Licenses | 250 | 250 | 460 | 210 |
| Building Permits | 3,550 | 3,550 | 2,795 | (755) |
| Total Licenses and Permits | 4,400 | 4,400 | 4,212 | (188) |
| Intergovernmental Revenue: | | | | |
| Class C Road | 30,954 | 30,954 | 32,246 | 1,292 |
| State Liquor Allotment | 645 | 645 | 780 | 135 |
| State Grants | 28,271 | 28,271 | 41,568 | 13,297 |
| Total Intergovernmental Revenue | 59,870 | 59,870 | 74,594 | 14,724 |
| Charges for Services: | | | | |
| Cemetery | 2,000 | 2,500 | 3,725 | 1,225 |
| Park and Recreation Fees | 3,700 | 200 | 50 | (150) |
| Refuse Collection Charges | 20,000 | 20,000 | 18,812 | (1,188) |
| Administrative Fee - Electric | 50,000 | 50,000 | 50,000 | - |
| Library Use Fees | - | - | 500 | 500 |
| Total Charges for Services | 75,700 | 72,700 | 73,087 | 387 |
| Miscellaneous Revenue: | | | | |
| Interest | 13,000 | 13,000 | 16,054 | 3,054 |
| Rents | 1,500 | 1,500 | 1,513 | 13 |
| Other | 1,500 | 4,500 | 5,828 | 1,328 |
| Use of Fund Balance | 40,120 | 89,000 | - | (89,000) |
| Total Miscellaneous Revenue | 56,120 | 108,000 | 23,395 | (84,605) |
| Amounts Available for Appropriation | 348,535 | 397,415 | 330,033 | (67,382) |

Continued

**KANOSH TOWN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note A)</u> | <u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u> |
|--|-------------------------|--------------|--|---|
| | <u>Original</u> | <u>Final</u> | | |
| Charges to Appropriations (Outflows): | | | | |
| General Government: | | | | |
| Salaries | 38,000 | 18,000 | 17,965 | 35 |
| Administration | 28,600 | 62,480 | 57,226 | 5,254 |
| Total General Government | 66,600 | 80,480 | 75,191 | 5,289 |
| Public Safety: | | | | |
| Fire Department | 20,000 | 50,000 | 46,530 | 3,470 |
| Emergency Services | 1,000 | 1,000 | - | 1,000 |
| Total Public Safety | 21,000 | 51,000 | 46,530 | 4,470 |
| Public Health: | | | | |
| Sanitation | 20,000 | 25,000 | 23,760 | 1,240 |
| Highway and Public Improvements: | | | | |
| Construction | 85,000 | 25,000 | 25,000 | - |
| Repairs and Maintenance | 25,000 | 85,000 | 70,220 | 14,780 |
| Total Highways and Public Improvements | 110,000 | 110,000 | 95,220 | 14,780 |
| Parks and Recreation: | | | | |
| Cemetery | 12,000 | 12,000 | 8,102 | 3,898 |
| Parks | 13,000 | 13,000 | 12,600 | 400 |
| Total Culture and Recreation | 25,000 | 25,000 | 20,702 | 4,298 |
| Total Charges to Appropriations | 242,600 | 291,480 | 261,403 | 30,077 |
| Budgetary Fund Balance - June 30, 2006 | 105,935 | 105,935 | 68,630 | (37,305) |

**KANOSH TOWN
NOTE A
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION**

For The Fiscal Year Ended June 30, 2006

| | <u>General Fund</u> |
|---|-------------------------|
| Sources/Inflows and Resources: | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedules. | 330,033 |
| Differences - Budget to GAAP: | |
| The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes. | <u>(105,935)</u> |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds. | <u><u>224,098</u></u> |
| Uses/Outflows of Resources: | |
| Actual amounts (budgetary Basis "total charges to appropriations" from the budgetary comparison schedules. | 261,403 |
| Differences - Budget to GAAP: | |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting pruposes. | <u>-</u> |
| Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds | <u><u>261,403</u></u> |

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

**KANOSH TOWN
NONMAJOR GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2006

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Fire Department Fund:

This fund is used to account for revenues received from the Millard County Fire District and related expenditures for fire protection.

PERMANENT FUND

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care Fund

This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

**KANOSH TOWN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006

| | <u>Fire Department</u> | <u>Permanent Fund Perpetual Care</u> | <u>Total Nonmajor Government Funds</u> |
|--|----------------------------|--|--|
| ASSETS | | | |
| Investments - Unrestricted | <u>5,760</u> | <u>65,041</u> | <u>70,801</u> |
| TOTAL ASSETS | <u><u>5,760</u></u> | <u><u>65,041</u></u> | <u><u>70,801</u></u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | |
| Reserved: | | | |
| Perpetual Care Fund | - | 65,041 | 65,041 |
| Unreserved, Reported in: | | | |
| Special Revenue Funds | <u>5,760</u> | <u>-</u> | <u>5,760</u> |
| Total Fund Balances | <u><u>5,760</u></u> | <u><u>65,041</u></u> | <u><u>70,801</u></u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>5,760</u></u> | <u><u>65,041</u></u> | <u><u>70,801</u></u> |

KANOSH TOWN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For The Year Ended June 30, 2006

| | <u>Fire Department</u> | <u>Permanent Fund Perpetual Care</u> | <u>Total Nonmajor Government Funds</u> |
|----------------------------|----------------------------|--|--|
| Revenues: | | | |
| Intergovernmental | 10,575 | - | 10,575 |
| Miscellaneous | <u>2,260</u> | <u>3,663</u> | <u>5,923</u> |
| Total Revenues | <u>12,835</u> | <u>3,663</u> | <u>16,498</u> |
| Expenditures: | | | |
| Current: | | | |
| Public Safety | <u>12,008</u> | - | <u>12,008</u> |
| Total Expenditures | <u>12,008</u> | - | <u>12,008</u> |
| Net Change in Fund Balance | 827 | 3,663 | 4,490 |
| Fund Balances - Beginning | <u>4,933</u> | <u>61,378</u> | <u>66,311</u> |
| Fund Balances - Ending | <u><u>5,760</u></u> | <u><u>65,041</u></u> | <u><u>70,801</u></u> |

COMPLIANCE SECTION

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Town Council
Kanosh Town
Kanosh, Utah 84637

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kanosh Town as and for the year ended June 30, 2006, which collectively comprise Kanosh Town's basic financial statements and have issued our report thereon dated August 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting


In planning and performing our audit, we considered Kanosh Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kanosh Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Honorable Mayor and Town Council
Kanosh Town
Page -2-

This report is intended solely for the information and use of management and the Town Board and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 22, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and Town Council
Kanosh Town Corporation
Kanosh, Utah 84637

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kanosh Town, for the fiscal year ended June 30, 2006, and have issued our report thereon dated August 22, 2006. As part of our audit, we have audited Kanosh Town's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the fiscal year ended June 30, 2006. The Town received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The Town also received the following nonmajor grant, which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of Blanding City's financial statements.)

Fire Department Grant (Department of Public Safety)

Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

The management of Kanosh Town is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Honorable Mayor and Town Council
Kanosh Town
Page -2-

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Kanosh Town, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the fiscal year ended June 30, 2006.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

August 22, 2006
Richfield, Utah